
A PUBLICATION OF THE NEW JERSEY DIVISION OF PENSIONS AND BENEFITS

Loans

Public Employees' Retirement System (PERS), Teachers' Pension and Annuity Fund (TPAF),
Police and Firemen's Retirement System (PFRS) and State Police Retirement System (SPRS)

APPLYING FOR A PENSION LOAN

Members must submit loan requests using the Loan Application programs of the Member Benefits Online System (MBOS)* at:

www.state.nj.us/treasury/pensions/mbosregister.shtml

or by calling the Automated Information System at (609) 777-1777. With MBOS and the Automated Information System you can:

- determine the maximum amount you may borrow and your minimum repayment amount;
- determine various repayment schedules for any amount borrowed – up to five years or the maximum amount that is permitted; and
- receive confirmation of the request along with the check mailing date.

NOTE: Printed *Loan Application* forms are no longer in use. Paper *Loan Applications* that are received by mail or fax at the Division will not be processed. Instead you will receive a letter with instructions on submitting the loan request through MBOS or the Automated Information System.

LOAN REQUIREMENTS

- To be eligible to borrow, you must be an actively contributing member of an eligible retirement system.
- You must have three years of contributing membership POSTED to your account. (This usually occurs three years and two months after enrollment.)
- Loan balances cannot be more than one-half of the contributions you have posted to your account, cannot exceed a maximum of \$50,000, and **must be repaid within five years**. Loans are made in multiples of ten dollars.

**If after following the MBOS instructions you still need assistance registering for or using MBOS call the MBOS Help Desk at (609) 777-0534 or send an e-mail to pensions.nj@treas.state.nj.us (please type MBOS in the subject line).*

- You are permitted no more than two loans in a calendar year.
- The interest rate is the prevailing rate set annually by the State Treasurer, and is calculated on the unpaid balance of the loan. A nonrefundable administrative fee may also be deducted from the requested loan amount. For the current interest rate and any administrative fee go to:

www.state.nj.us/treasury/pensions/loans-home.shtml

- A remaining loan balance can be paid in a lump sum. Contact the Division for a loan pay-off amount.
- If you retire with an outstanding loan balance, you have the option to pay off the outstanding loan balance **in its entirety** or to repay the loan through deductions from your retirement allowance until the balance of the loan **together with interest** is repaid. Payments will be the monthly equivalent of the amount deducted from your compensation immediately before retirement.
- If you die before the outstanding loan balance with interest has been recovered, the remaining balance will be repaid from the proceeds of any other benefit payable to your beneficiary(ies), including group life insurance or monthly payments.

REPAYMENT DEDUCTIONS

The minimum deduction for your loan is set by law as no less than the full pension contribution. You can request a repayment larger than the minimum deduction; however, the repayment deduction cannot exceed 25 percent of your base salary.

Some members with multiple outstanding loans may be required to pay more than the minimum deduction due to Internal Revenue Service regulations requiring repayment of any outstanding loan balance within a period **not to exceed five years from the issuance of the first loan** taken after January 1, 2004 (see "IRS Requirements" below). Furthermore,

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some members with multiple outstanding loans may be limited in the amount they may borrow, or may have their loan request rejected, to assure that the maximum allowable repayment will not exceed 25 percent of base salary.

IMPORTANT NOTICE: If you are not satisfied with the loan amount or the repayment schedule when you receive your check, you may cancel the loan by returning the original unmarked and uncashed loan check. When a loan check is returned, the funds are deposited back into your pension account and may be available when the next quarter is posted.

INTERNAL REVENUE SERVICE (IRS) REQUIREMENTS

IRS regulations require that loans must be repaid within a period not to exceed five years. The IRS further requires that members who have multiple outstanding loans must repay the balance of all loans taken within a period not to exceed five years from the issuance of the first loan taken after January 1, 2004. If a loan cannot be repaid within the five-year maximum when paid at the maximum allowable loan deduction of 25 percent of your base salary, your loan may be denied or you may be issued a loan in a smaller amount than you requested.

IRS regulations also require members to make timely payments toward outstanding loan balances. You will be notified after nonpayment (zero contributions) toward the balance of your outstanding loan and offered the following options:

- Pay the loan off through a lump sum repayment;
- Repay the loan in monthly installments through personal billing;
- Take a taxable distribution; or
- If you returned to employment, repay through employer payroll deductions.

You must return your payment option selection within 30 days of notification of nonpayment; failure to respond within the 30 days will result in the unpaid loan balance being declared a taxable distribution which will be reported to the IRS. The Division of

Pensions and Benefits will send you a *Form 1099-R* for tax filing purposes in January of the following year. You will be required to include the portion of the loan representing before-tax contribution as income on your federal return. In addition, if you are under age 59½, you will be required to pay an additional ten percent tax for taking an early pension distribution.

A “taxable distribution” cannot be cancelled by resuming loan payments or repaying the loan in full prior to the end of the tax year in which the taxable distribution occurs. Please note that unlike a normal pension distribution, a loan treated as a distribution cannot be rolled over to an IRA or another qualified retirement plan. Members who take a loan and subsequently fail to remit loan payments may also be subject to additional IRS penalties. Additionally, active and vested members who have a taxable distribution are required to repay the balance of the loan to the retirement system.

Since these are federal regulations, neither the Boards of Trustees nor the Division of Pensions and Benefits has the authority to waive or delay the application of these provisions. For more information about IRS regulations regarding taxable distributions go to www.irs.gov

EXCEPTIONS

While the majority of loan requests will require processing through MBOS or the Automated Information System, some members are not granted access the Loan Application online or by phone and may have to submit an application manually for various reasons:

- Judicial Retirement System (JRS) members should continue to use the paper JRS Loan Application;
- If you have established a security freeze on their accounts due to an instance of ID theft (these members must contact the ID Theft Coordinator to request a loan); and
- Additional reasons as why you might not be able to obtain a loan through MBOS or the Automated Information System include:

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- If are applying for a loan within 6 months of returning from a leave of absence;
- If you apply for a loan within 6 months of transferring within the same retirement system to a new employer;
- If your employer was late in submitting the *Report of Contributions* for the quarterly posting; and
- If you are a State employee who is paid on a supplemental payroll schedule.

Members shown as inactive from payroll may still be able to borrow, but a *Certified Loan Request* form must be submitted by the employer to verify the employee's active pay status. For more information see your human resources representative or benefits administrator.

NOTE: Limited access to a computer or a member's reluctance to use MBOS or the Automated Information System will not be considered sufficient circumstances to allow manual loan processing.

This fact sheet has been produced and distributed by:

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Although every attempt at accuracy is made, it cannot be guaranteed.